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Industrial Problems discard

The Profit Motive

Is It Indispensable to Industry?

BY

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INTRODUCTION

IN WRITING this pamphlet on the Profit Motive in Industry, Dr. Harry F. Ward of Union Theological Seminary presents a vigorous challenge to much of our economic thinking.

Current economics has been to a very considerable extent based on the assumption that industry is running today and running efficiently primarily because it is built on the principle of production for profit. In the following pages Dr. Ward flatly denies this assumption. He asserts—and backs his assertion with numerous illustrations—that the profit motive in industry has resulted in manifold evils. It has led to fraud, to the production of "illth," as Ruskin would have it, to child labor, to industrial and international warfare. Industry, under its influence, has been most inefficiently run, and society has had repeatedly to step in and curb the profit instinct in order that progress may continue.

The profit motive is not indispensable. Other motives are effectively operating today in cooperative industry, in governmental industry, in many of our professions, and even in a considerable sphere of private industry itself. Society must substitute for the profit incentive some other incentive as the dominating motive in industry if it is to serve the highest social ends. These are some of the contentions of the author. They are worth the very careful consideration of all students of social progress.

"The Profit Motive" is a fitting supplement to other pamphlets of the League on war, waste, public ownership and the accumulation of capital.

As has been the case with our preceding pamphlets, this brochure of Dr. Ward's was submitted before publication to a number of students and men of affairs for their constructive suggestions and is in a real sense a cooperative enterprise. We take pleasure in presenting to our members and friends this genuine contribution to a vastly important subject.

HARRY W. LAIDLER.

October, 1924.

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The Profit Motive

By HARRY F. WARD

CHAPTER I.

PROFIT AND THE PROFIT MOTIVE

EVERY proposal to transform industry for profit into industry for use is met at the very outset by the popular belief that the profit motive is the source of whatever improvements the industrial era has brought to human living. It is generally regarded with superstitious veneration as a genie of the lamp able to produce at will all that man needs or may desire. The gospel of the acquisitive society declares as its law of life, "seek first profit and all things else shall be added unto you." To question this with most of those who have been born, bred and trained under the régime of modern business enterprise is an undertaking almost blasphemous.

"I do not agree with you about the profit motive," writes the chief officer of a national religious organization, "it is the wheel that moves the world." But an industrial engineer, with large experience in trying to get scientific efficiency out of the economic process, writes, "I can see no way out except a complete change in motive." Here, as the Webbs point out, is "the very core of the case" between the capitalist system and social democracy,[1] and it must be settled by analysis and measurement.

The Appeal to Fact

These counter-claims are both alike valueless as mere affirmations of belief. One of them must approve itself by the facts. The appeal is to Caesar and the advocates of an intelligent adjustment of the economic process to meet measured needs are content with the court. The ultimate test of ability to meet the needs and desires of man will determine whether the

[1] S. and B. Webb. *The Decay of Capitalist Civilization*, p. 81. "The modern controversy between the believers in a new order of social democracy and the most enlightened adherents of the capitalist system turns, in fact, on the efficacy or indispensability of the motive of profit-making and its defects . . .".

profit motive will remain or go; whether its hard-headed defenders have gripped reality or are indulging in mere superstitious belief; whether those who would replace it with other incentives are vain dreamers or idealists imbued with the scientific spirit.

Before the workings of the profit motive can be accurately examined, there must be an understanding of what it really is, and this in turn requires an understanding of the nature of profit.

Some Definitions of Profit

In the popular meaning of the term profit appears simply in terms of money. The end of a successful profit-making transaction or enterprise is a sum of money, and as large a sum as possible. Industry for profit is industry for the purpose of making money, and as much as can be made. The goods supplied or the service rendered are incidental to the money accumulated. Business is good or bad according to the amount of cash balance on the right side of the ledger.

If profit is what you are after, you charge what the traffic will bear. You buy in the cheapest market and sell in the dearest, regardless of the consequences to others. You would be a fool not to. When Henry Ford rejects this idea and makes the price of his cars not by figuring how much the possible market can be induced to pay, but by estimating what it ought to pay in view of its financial situation and then compelling his plant by economies to make a car at that figure, he has revolutionized the concept of profit.

The traditional view was expressed by a corporation manager who described himself as "an expert in developing and discovering new territories for development for banks" when he said, "there has been a lot of bunk about helping the Haitians. I am not here to help the Haitians. I am here to make money out of Haiti for myself and my friends."

The orthodox economists put the matter more delicately. Adam Smith points out that the essence of profit is the exchange of less labor for more labor. His present-day followers talk about maximum income with minimum effort as the desire of everybody, but how everybody can attain this goal by seeking to exchange less labor for more labor has never yet been explained or demonstrated. There are, of course, economists who conceive maximum income with minimum effort in social terms. That this is the desirable state for the community income and the community effort goes without saying. That

this delectable situation can never be reached by inciting individuals to get as much and give as little in return as possible is a hypothesis with few parallels for inconsistency in the history of human thought. In traditional economic theory, competition was relied on to resolve this inconsistency, but successful profit making generally involves the destruction of competition and usually manages to nullify all efforts to resuscitate it.

The explanation of profit in terms of the exchange of labor analyzed the experience of the mercantile era. After some experience of industrialism the economists wrote it down as the wages of management. Obviously this is more than explanation, it is also attempted justification. The terms, wages and reward, introduce moral considerations and beg the ethical question. The statement should have confined itself to the fact that profit was the sum remaining to the manager of a speculative enterprise after his actual outlay in costs was paid back, which might or might not be sufficient to pay him for his time. This is profit before the days of the corporation and cost accounting and this is what it still is for most small business men and farmers. It is nothing but the wages of management and a very inadequate wage at that. But for the merchant or small manufacturer or farmer whom the business or agricultural college has taught to keep books properly, as for the corporation, profit does not exist until the wage of management, that is, the manager's labor income, has been paid. In the modern world profit is net surplus after all costs of the enterprise have been met, including all possible charges for management, allowance for depreciation, and a reserve sufficient to carry through the slack season or the inevitable lean year. Industry for use must make a profit in the old and loose sense; that is, it must avoid a loss and produce a surplus above overhead costs to provide for depreciation, necessary reserves and extension of plant. This gross profit was a rough-and-ready method of assigning and determining the labor income of the manager, but the modern net surplus is in its most finished form an exact method of abstracting from the common pool all that is possible by virtue of advantage of position.

A later refinement of the earlier view that profit is the wage of management defines it as the measure of the margin between a successful enterprise and one that barely earns running expenses, and therefore acclaims it as the reward of ability, the return for superior management. But the differ-

ential may lie in some undue advantage, like monopoly control of a natural resource, of transportation, or marketing facilities, or possibly in superior unscrupulousness in regard to the product. Where these factors are not present and the net gain is clearly derived from superior service to the community with no accompanying injury, it is still true that it is the product of a joint enterprise in which the wage earners and the consumer have actively participated and to which the community has been a contributing partner by the loan of its facilities. It is the recognition of this fact which has led to profit sharing, municipal partnership in public utilities, and consumers' cooperation, all of which eliminate profit in varying degree. For profit is not merely net surplus above all necessary costs, it is net surplus appropriated by one of the participants in the enterprise who thereby gains an advantage over the others and to some degree obtains something for nothing.

The Reward of Risk

The orthodox definition of profit adds to its claim that it is the reward of management the statement that it is also in part the reward of risk, the due return to those who in behalf of the community put their savings into needed new enterprises where they may take wings and fly away. This aspect of profit is naturally stressed now that the control of industry by finance and for finance has in so many areas removed the income of managers from the basis of speculative risk to the surer foundation of salary and fixed charge. It is, in effect, an attempt to validate the title of absentee ownership to the entire net surplus. As such it ignores the risks of the other contributors to the enterprise, the risk of labor in unemployment, the risk of the community in entrusting its resources and facilities to this kind of ownership and management. That in many cases a net surplus would not exist had not a risk been taken is as obvious as that it would not exist without good management. But the risk is always a joint risk and therefore cannot be justification for turning over the entire net surplus as profit to only one of the risk bearers. Moreover, if the profit is to be apportioned to all participants as the reward of risk it must first be determined that the risk is in reality in the interest of the common weal or desire.

This emphasis upon the relation of profit to risk brings to light the fundamental fact of the speculative nature of profit. The opportunity for gain is a Siamese twin of the possibility

of loss. But this relationship grows less binding with age. It is very much more true of new enterprises than of old ones. Hence certain English business men desiring to reform and save capitalism are proposing that in established, routine business, absentee ownership shall have no claim at all upon the net surplus, but that for five years those who start new enterprises shall be allowed unlimited profit. In this country many of the enterprises which most constantly accumulate a large net surplus carry very little risk. They have routine methods joined to adequate control of raw materials, transportation and markets for basic necessities like steel, oil, coal, meat, sugar. They face no real danger of loss short of a revolution. The same thing is true of the large gains accumulated by modern banking, particularly the commissions taken for floating loans and the inside profits of the members of interlocking financial organizations. Furthermore, many huge profits are made by transferring risk to the shoulders of others and turning the gambler's chance into a sure thing. Thus the watered stock is sold to the investor of real savings, unemployment is deliberately handed to the wage earners while absentee ownership goes on enjoying the accumulated surplus, and, by the grace of the State Department, the taxpayer foots the bill of collecting through the navy the high returns on foreign investment in unstable countries.

Something for Nothing

It appears then that profit in the business world is not the exact thing described in the conventional textbooks. It may or may not have something to do with superior management and socially necessary risk. As a matter of fact, the tendency in corporation organization is to transfer the reward of capital for risk to the same area of fixed charge where the wages of management have gone. In the higher finance, bonds and preferred stock represent actual investment of some sort and the interest rate varies with the risk involved. Common stock is usually pure water used as a bonus to "sweeten up" the investment proposition and attract capital. Generally it remains in the hands of the promoters, until by virtue of accumulated profits it can be sold for real money.[2] It claims, and usually receives, the entire net surplus after all fixed charges are paid. Once more it appears that a method

[2] Steel common in which not one dollar was invested is now worth 95.

for determining wages of risk[3] has become a method for appropriating from the common enterprise whatever can be taken by virtue of advantage of position. This was frankly stated by the head of U. S. Steel in one of his addresses to the meeting of stockholders when he said that unless the investors could have the entire net surplus to do with as they will they would not put their money into the enterprise.

It appears then that Adam Smith was nearer the fact when he described profit as the exchange of less labor for more labor than are those who talk about it in terms of the reward of management or capital. The profits of a complicated industrial and financial system are at bottom the same thing as the profit of the simpler transactions of the trading period. What happens when the net surplus of an enterprise is appropriated as profit by one participant or set of participants is that they have secured an advantage over the others and thereby obtained something for nothing. These are the essential elements in profit.

This core of profit is revealed by some distinctions in popular language. The contrast between profit and service may be worn threadbare but the root of the matter is in it. Profit is something taken, service something given. In the phrases "for service rendered" and "for value received" lies the ethical difference between the professions and business. The professional man is responsible to himself for rendering you full service. In business, untouched by a professional code, the responsibility for getting value is on you: "Let the buyer beware." The emergence of phrases like "the square deal" and "he profits most who serves best" represent a feeling after a different morality and the limitation of the right to take advantage of the ignorance or necessity of others. They are the emerging voice of the tendencies developed in the long days of living when economic necessities were provided by ordered arrangements and mutual exchange.

The same contrast appears in the distinction between profit and wages or salary. The acceptance of wages and salary in-

[3] Neither the economic necessity nor the moral validity of interest is here conceded. The analysis of its likeness to profit is beyond the scope of this enquiry. It should be pointed out, however, that even in the form of payment for the use of real savings it often contains concealed profit, as do the distended salaries of officials. In one of his country plants Henry Ford refuses to make interest on the factory a cost charge, apparently because it would defeat the experiment by making costs higher than in city production. Therefore, he says: "The consumer paid for that plant in last year's cars why should he pay for it again?" For a glimpse at the amount collected in American business enterprise as profit on accumulated profit see Soule, *Accumulation of Capital* (League for Industrial Democracy).

volves an obligation to give an equivalent return for them. The common judgment holds the recipients to be in honor bound so to do. But with profit the contrary is the case. The efficient profit maker must give as little and take as much as he can get away with. If he does it too directly he will get denounced as a profiteer. Otherwise he will be honored as a leading citizen and the pattern for youth. It is futile to acquiesce in the method of profit and dislike or denounce profit seeking. If profit making is indeed the path to general prosperity, then the energetic are obligated to seek and make opportunities for profit. By getting as much as they can for nothing by taking away from the rest of us all they can lay their hands upon, are they not thereby conferring a benefit?

It is necessary, of course, in the great run of business, that some benefit should remain to those from whom a profit is made, but a transaction for profit is never a mutual exchange. In a simple barter or sale both may benefit, but one benefits more than the other if a profit is made. In the complex transactions of the modern business world several parties may benefit equally but if a residual profit remains it is because the disadvantage has been passed on to others, usually to the figure called the ultimate consumer. In some transactions, notably on the stock market, profit is made by actually taking away what others have. Reflecting this atmosphere, an advertisement going the rounds of college papers urges students to take out an insurance policy on the ground that the business world is organized to take away from them, if it can, whatever they may acquire. In most commercial enterprises, however, the fact of profit means that the consuming public has been prevented from receiving benefits that would have come to them had the transaction been carried out as a mutual exchange of goods and services, and the resultant increase been apportioned among or credited to all participants.

A further recognition of the fact that the essence of profit lies in securing an advantage over others is the current application of the term to the relation between various groups in the economic process. Thus an agricultural journal says: "Labor has no intention of foregoing any part of its present temporary economic advantage at the expense of the farmer. It is as hopeless to expect that laborers will give up their profiteering-advantage as it would have been to expect the farmers to give up their temporary profiteering-advantage which they had back in 1917 and 1918."

A church publication stresses a similar point: "Whatever dishonesty of work exists among the wage earners finds its ample parallel in the profiteering and other forms of injustice practiced by employers. A large proportion of the latter do not scruple to make excessive profits, whether by exploiting labor or by gouging the consumer. Labor sometimes profiteers in the way open to it, by loafing on the job and by a bad quality of work." The difference between profit and profiteering in a situation which is organized as a struggle for advantage between individuals and groups is only one of degree.

That this advantage, when secured, involves getting something for nothing is clearly recognized in the term "unearned increment"; that is, the increased value of property accruing to the individual through no exertion and sometimes no foresight of his own, but by the labor of others in the development of the community. This kind of gain is called by some sociologists "findings," and the community that permits it is still playing the childish game of "findings—keepings." In the involved workings of business, industry and finance this element of something for nothing is not so conspicuous. It is concealed by the fact that some service is rendered, some risk borne. But the net surplus remaining after these have been duly paid for is what men struggle after in a profit system and when they get it they have in some degree obtained something for nothing and taken something, directly or indirectly, from others. In older days this was done through the exercise of physical or military power by bandits, chieftains, nobles, kings and emperors. It is still so done in some parts of the earth. But in our regions the getting of something for nothing is accomplished by the taking of profit through the exercise of economic power. It is done in turn, as opportunity offers, by merchants, manufacturers, wage earners, investors, financiers and farmers. It is done in wholesale fashion by the great industrial nations as they exploit the natural resources, labor power and markets of weaker peoples in what they call economic penetration.

Profit, then, in the last analysis, is the net surplus of a joint enterprise appropriated by one party in it. It is unearned increment that becomes unearned income. It is value received for which no equivalent in goods or labor has been given. It is benefit enjoyed without service rendered. Its final product and its ultimate receptacle is a propertied class whose members can, if they wish, live without working, take all that life holds and give nothing in return. The successful

practice of the exchange of less labor for more labor culminates in the establishment of a legal and moral right to live completely by the labor of others.

With this understanding of the nature of profit, what the profit motive really is now becomes evident. Motives, psychology tells us, are anticipated ends. They are results imagined, consequences foreseen. Therefore, the profit motive appears in several forms corresponding to the several aspects of profit, which we have seen to be: in the broad a sum of money acquired, more specifically the net surplus of a transaction and in essence something for nothing gained by securing economic advantage over others.

The Pull of Money Making

Consequently, in its simplest form the profit motive is the pull of the possibility of making money. In this guise it moves all sorts and conditions of men in all stations of life. It is necessary at once, however, to make a distinction. The desire for an adequate labor income, for the means of maintenance and development of a family according to what are conceded to be socially beneficial standards, is not the desire for profit. The great crowd who are content with a modest competence, who never seek to make as much money as possible but prefer other pursuits, are rejected by the gospel of profit. Unresponsive to its appeal, they are shut out from its rewards, for under industry for profit many are called but few are chosen.

In its more specific aspect, moving the elect, the profit motive is the anticipation of pecuniary gain above the necessary costs of the enterprise, and more than is realized on the average. The appeal of this possibility must not be confused with the fear of loss, which is not a stimulus confined to the profit system. Industry for use is also under the necessity of avoiding loss. The manager of a cooperative store is obligated to do this just like the manager of a chain store, the technician employed in a municipal undertaking equally with his fellow craftsman who works for a public utility corporation On the other hand, the desire to get hold of more than their share of the net surplus, or to take it all, often moves those who work for salary and wage as well as owners and investors. It dominated some skilled wage earners during the war as it did more merchants and manufacturers and financiers. Its most disgusting public appearance is the assertion that men of big managerial ability will not perform their function unless

they can receive the guarantee of an income many times the average.

The Profit Motive as a Social Force

In its strongest form the profit motive—the anticipation of getting advantage over others and obtaining something for nothing—appeals to two of the most powerful tendencies in human nature, the love of power and the liking for luxury and leisure. In this aspect it moves to economic activity men of the ambitious, ruthless type who in other days would have led fighting, plundering bands, but today are captains of industry and finance, exercising their power in practices which have to be progressively declared criminal like rebates, combinations in restraint of trade, and manipulation of securities.

In order, however, to discover whether this stimulus of anticipated profit in its several aspects is industrially effective, something more than the behavior of individuals must be examined. It is necessary to view the profit motive as a general force, constantly operating the economic machine, determining what it does and how it does it. Of course, the profit motive is nothing apart from the desires and purposes of persons, but, like all social forces, in time it becomes more than these or the sum of them. At times it ignores the desires of individuals and at times it shapes and compels them to its ends. The business man may not like to pay commissions or give presents to purchasing agents, but if he is going to make money in certain situations he has no choice. The heir to millions may not want any more money but as long as his investments are left in the profit system he gets it just the same. He may not seek any advantage over his fellows; it comes to him nevertheless. He may think it wrong to take something for nothing; it is continually given to him notwithstanding.

Research into the interactions between individuals and social institutions or forces is yet in its infancy, but a glance at the way the desire to make as much money as possible, the crudest form of profit motive, moves men and the way it operates the economic machine reveals significant differences. In the individual this purpose is mixed with other desires and complicated by the question of what the money is wanted for. But the business machine knows no such complexity. It is perfectly simple and absolutely direct. Business for profit operates constantly to that end and that alone. Its processes must be determined by that necessity—what will make the most

money? The financial pages of the papers mention nothing else. What he wants the money for makes a lot of difference to the individual and to society, it makes none to the profit machine. The necessary energies will be called forth alike whether men want the money for babies or white elephants or journeys to the moon, to improve some necessary industrial function, or to enable their sons to live like "gentlemen" without working. Neither does profit-seeking industry stop to ask whether an activity is socially necessary, which is the essence of industry for use, but only whether it will make money. Thus the profit motive is entirely blind at the point where our associated living most needs vision. It does not even ask whether the money which it anticipates is needed either by the individual or the community. It just goes on stimulating its acquisition. Most ends are but points in a series, means to other ends, and this fact has been urged in extenuation of the profit motive, because the money that it leads individuals to gain is sought not for its own sake but for other purposes. This is not so with money-making as a system. It uses profit to make more profit, capitalizing past gains for still further increases, piling Pelion upon Ossa in shape of financial overhead upon the back of productive enterprise.

In the working out of plans for the development of industry for use we shall need to know a great deal more than is now understood concerning the way individual behavior is affected by profit as an institution and by the profit motive as a general economic and social force, to which individual activity contributes and by which it is in turn directed. But the question now before us is more simple. It asks what are the economic results of this force where its workings can be plainly seen? What does it do on the whole where it is not affected by other considerations that modify its particular manifestations in individual lives? Thus we examine it more as a method than motive, as that term is usually understood. It is a way of getting certain necessary things done by holding out the possibility of reaching certain ends, by stimulating certain tendencies in human nature. Then how well does it do its work? Is the best route to necessary goods and services by way of money making? Does the prospect of possessing the net surplus produce automatically the best possible allocation of abilities and capital? Is the opportunity to get more than others and to obtain something for nothing developing the utmost obtainable cohesion and continuity in the economic process and in the social organization?

CHAPTER II

IS THE PROFIT MOTIVE EFFICIENT?

THE most obvious thing about the motivation of industry for profit is that it is an indirect method of meeting economic needs. It claims to produce and distribute goods and services in the best possible manner by way of money first. If this claim be true then economic activity is radically different from every other expression of life. Even children know that we do not seek truth or beauty or fellowship by way of money. It is conceded that if a man's first object is to make money he will not be as good an artist, scholar, teacher, soldier, judge, doctor, preacher.

Consequences of the Desire to Make Money

Two analyses of the profit motive and its consequences have recently appeared.[4] They represent two different schools of thought—the socialists and the cooperatives. But they agree on the factual consequences of the desire to make money. Indeed these are apparent beyond dispute. They can be listed in three categories: damage and destruction to the instruments of production; the production of inferior and harmful goods; increase in the cost of living. Under the first head goes the waste of our human and natural resources; under the second, adulteration, short-lived goods, crooked weights and measures, the stimulation of the traffic in alcohol, narcotics, prostitution, munitions; under the third, the multiplication of unnecessary advertising and selling costs and the increase of financial overhead through manipulation of securities, fictitious capitalization and kindred devices.

These things are the direct result of the desire to make money. Where it does not function they do not appear. The cooperatives do not sell adulterated goods or give short measure. Tell the technician to find the best process for producing necessary goods and he rules out child labor, hazards to life and health, fatigue, and impoverishing standards of living along with the waste of unused coal in the mine and

[4] S. and B. Webb, *The Decay of Capitalist Civilization;* Chaps. 4 and 5. J. P. Warbasse, *Cooperative Democracy;* Book III, Chaps. 1 and 2. These have come out since this essay was first outlined and, since they follow the same diagnosis, make a part of the discussion unnecessary.

timber in the forest. Release him from the necessity of making money first and he will remove the desolation of a denuded lumber region, the squalor of mill towns and mining camps where nature and humanity alike have been stripped bare to make profit. Is it not demonstrated that the traffic in alcohol and narcotics diminishes with the removal of the chance to make money in it? Do not the profit makers themselves propose, as one of the first measures to lessen the stimulation to war, to take the making of munitions out of the field of profit? Do not the more enlightened of them recognize that if the system is to continue, unnecessary advertising and needless profit transactions between producer and consumer must be eliminated, along with those financial practices which represent the purest forms of profit? Thus when analysis of the actual effects of the money stimulus is substituted for general, undiscriminating observation of all that goes on under the profit system, it appears that the conclusion concerning its efficiency is premature. The same deterioration of worker and product happens here that occurs in every other vocation under the pressure of money first.

That this is an inherent process of cause and effect, operating without exception, is seen from the fact that these evils appear and reappear. Oil developed for money and not for use now repeats the land grant scandals of railroad history and the malodorous record of timber frauds. After a hundred years of labor laws, money making industry, started by Western capital, reproduced in India and China the inhuman treatment of labor that characterized the earliest days of industrialism in England. The financial history of Europe since the World War shows the repetition of all the worst forms of financial manipulation and trustification that characterized the wild period of early finance in this country.

It is inevitable that to every reform which its operation makes necessary, if mankind is to go on living decently together, the money-making spirit should offer the stoutest resistance. That failing, it proceeds to capture the reform for its own purpose. The eight-hour day was declared by U. S. Steel to be impossible because unprofitable. Finally, under public pressure it was given the workers at the price of lowered income and not many months later the corporation declared the largest profit in its history. The separated trusts make more money. The regulated public utilities manage in the course of time to control indirectly most of the regulating commissions and courts through their growing power in an

investment age of the right to profit. Welfare work is adopted as a concession to the humanitarian spirit and in due time is advocated and used because it helps make more money and so becomes an additional source of industrial friction between owners and workers. It is in the nature of money making that it continuously diverts a considerable part of the energies that should go into the constructive improvement of the industrial process to the tasks of reform. It then sees to it that the stone which the reformers have laboriously rolled up the hill is continually slipping down again.

If the desire to make money were indeed the only stimulus for industry there would be no reform. The constructive tendencies visible in the profit system are not stimulated from this source. Left alone the spirit of money making would destroy itself in its blind inefficiency. But for the humanitarian spirit it would, as it did, carry the injury of the wage earners to the point of loss to itself. But for the scientific spirit it would have carried the destruction of natural resources to the point of making future profit impossible. Webb and Warbasse have both conceded too much to the profit stimulus in the earlier stages of industrialism. The older forces of craftsmanship and group loyalty developed in the long days of more communal living were still powerfully at work. The desire for mechanical improvements and material comforts is not the profit motive. It is also clear that craftsmanship decreases with the rise of money making, that the production of cheap goods and nasty in an era that puts money first is cumulative owing to the progressive lowering of standards and degrading of tastes.

Only by lumping together all the results of industrial progress and uncritically assigning them to the sole operation of a love for money has the illusion of the effectiveness of the profit motive been maintained.

"Anyhow, It Works"

The usual response to the evidence concerning the destructive consequences of the money stimulus is "anyhow, it works." The defenders of the profit method affirm that in the long run the kinds and amounts of things that are most needed will be those that it is most profitable to produce. No churchman ever believed more infallibly in Pope or Bible than orthodox economist believes in the infallibility of the profit motive as the director of useful economic activity.

But all infallibilities are now subject to analysis and meas-

urement. The engineers and other technicians have the last word concerning the actual performance of industry for profit both in relation to capacity and to need, and their rough preliminary measurements make it clear that under the profit method we are far from that maximum production which is its vociferous boast.[5] The engineers are also beginning to see that they cannot get efficient production as long as business spends more time and money in selling things for profit than it does in making things for use.[6] One of the most scathing, factual indictments of the inefficiency of modern business enterprise comes from a highly successful business man of forty years experience who is convinced that there is no remedy short of the removal of rent, interest and profit.[7]

It Does Not Work

Whatever may be the worth of these conclusions the evident fact is that the points of failure to supply needed goods and service are the points at which the direct workings of the stimulus of money first are most clearly visible. The most familiar cases are the basic necessities, railroads and coal. Various public commissions and sundry legislation testify to the incapacity of these industries to meet the needs of the public, and make manifest that the primary cause of failure is the search for profit, producing, in railroading, financial manipulation and consequent demoralization and, in coal, monopolistic control in the anthracite field and blind overdevelopment in the bituminous field.

In the case of certain other basic necessities it is equally clear that they cannot be produced in sufficient quantity by the stimulus of money making. A large part of our population is undernourished and underhoused, but it is not profitable to produce more foodstuffs and the kind of houses that are needed. Our authorities in city housing now reluctantly admit that the problem cannot be solved by private profit enterprise. The only relief in sight for certain city dwellers is by public subsidy or cooperative, nonprofit enterprise. In these matters at least the absurdity of the thesis that maximum production at minimum cost can be obtained by way of profit is being practically dmonstrated. To remedy their situation a part of the farmers are proposing to get a subsidy from the consumers

[5] Report of Hoover Committee. Stuart Chase, *Waste in Industry*, Etc.
[6] Gantt, *Organizing for Work.*
[7] Gillette, *The People's Corporation.*

by government action. If they took it indirectly in profit, who would object? Now they are denounced as robbers.

It has also long been evident that the desire to make as much money as possible operates to lessen production as well as to stimulate it. This is the negative form of sabotage, "the conscientious withdrawal of efficiency," as wage-earners call it. The positive form is the destruction of goods and this has occasionally been done for profit from the day when the East India Company dumped spices into the ocean in order to hold up the price. The lessening of production, however, is a constant and growing part of the profit method, despite its worship of maximum production. Do not the advocates of profit themselves loudly denounce the decay of the will to work? And are not the two chief causes of this phenomenon an unwillingness to labor for the profit of others and the spread of the desire for easy money by the practice of profit making?

In the post-war period our business leaders were preaching this gospel with fanatic zeal and fervently branding the wage earners as slackers. Within a few short weeks the same people were cancelling orders, shutting down factories, contracting credit. It was the familiar story of the business cycle with its alternating prosperity and depression. The theory of Hobson, the English economist, in explanation of this is that the uncontrolled stimulus of profit leads to overcapitalization of essential industries and at the same time to the maldistribution of income. Then the market is glutted with goods which those whose income has been cut by the encroachment of profit cannot purchase. Profit has come between supply and demand and blocked the process. Veblen[8], who has expounded the inherent sabotage of profit seeking business at length, has come to the conclusion that the necessity of making increasing profit to meet the mounting capital charges on production requires business enterprise continually to supply less goods at higher prices. Hence the continuance of this policy will result "in a progressively widening margin of deficiency in the aggregate material output and a progressive shrinking of the available means of life." These analyses confirm the point that where the stimulus of money making works directly its tendency is to diminish necessary production.

[8] For the briefest exposition see his *Incentives in the New Industrial Order.*

Profit in Manipulation

When it comes to the more specific workings of the "principle of pecuniary gain" the claim of industry for profit is that the anticipation of possession of the net surplus leads both ability and capital to the undertakings most needed by the community. Yet it has long been evident that in the established routine processes there is more money to be made in manipulating the agencies of production than in production itself. If profit is desired, who would think of putting money into agriculture, or railroads or city tenements? If the flow of capital and credit is to be directed by the urge for net gain, it is inevitable that basic necessities should first be overcapitalized and then slighted in favor of the higher returns that are possible elsewhere. Recently a man went to his bank to get additional capital for an established, constructive enterprise and was told that none was available. A few days later he found that bank had supplied twelve million dollars for the sugar speculation whose robbery of the consumers became a national scandal. It used to be contrary to banking ethics for bankers to participate in the profits of enterprise for which the funds of the bank were loaned. But that dangerous practice was so stimulated by the vast profits of the war and post-war inflation that some leaders of finance were finally moved by the contrary motive of public service to step in and prevent disaster.

In the nature of the case, the growth of the corporation, augmenting as it does absentee ownership of the instruments and process of production increases the emphasis upon profit for profit's sake. The ordinary stockholder wants one thing from the management, his dividends, and he wants them as long as possible. The financial pages of the papers do not discuss the success of enterprises in terms of goods and services. Thus there is an urge for capital to go blindly where immediate, high profits seem available. It then, in large measure, becomes for the community a debt not a tool, a depressing charge upon production instead of a stimulating aid. At the present time there is depression and unemployment in textiles and shoes. Its main causes are two. Over-expansion of plant due to the high prices and profits of the war period, and curtailed purchasing power of large sections of farmers and wage workers which in turn is chiefly due to the capitalization of the huge war gains made by a smaller section of the population.

Two Assumptions

It is claimed, however, that this failing becomes a virtue in the matter of getting new enterprises started because there speculative risks must be blindly taken. Here, however, there are two assumptions: that there is no intelligent way of determining what new enterprises are needed, and that men will not undertake them for any other reason than the prospect of extraordinary financial gain. Neither assumption will stand analysis. Technicians are developing the capacity to undertake new enterprises on the basis of measurement of needs, and other stimuli than profit constantly move financiers as well as inventors and pioneers to risk new ventures. The main point, however, is that as the industrial system ages there is less need of new developments and more need of perfecting and cheapening stable processes. But the lure of profit leads toward the overdevelopment of risk enterprises and the starvation of essential industries. It incites the overdevelopment of soft coal mines with inevitable constant underemployment, the fever of oil speculation with the wasteful overdrilling of wells, the gambling in land values instead of the improvement of agriculture or housing. Likewise it draws capital abroad regardless of needs at home. The last expiring production of the English machine shops in 1921, before their shutdown from lack of work, was to make machines for the jute and cotton mills of India, largely owned by British capital. The cheap product of these mills meant less work and wages for English textile workers when unemployment was already a desperate national problem. At the present moment, with our problem of agricultural credit unsolved, with many of our people underfed, underclothed and underhoused, with the plans of the technicians for the scientific development of our natural resources lying unused, American capital is reaching out to the ends of the earth in search for profit whose benefits will accrue only to the few while its deficits will be borne by the many.

Does the lure of prospective profit operate any more intelligently in the assignment of abilities to tasks? If college graduates were choosing an occupation with no other purpose than to make the most money in the shortest time their first choice would probably be bootlegging. Some of them took it for a vacation job and came back to college with more money than their fellows who followed the more respectable path of persuading housewives to buy things they often did not need. When the profit motive operates more indirectly in the choice

of a career, and the dominant factor is the securing of the social position, ease and luxury that can come most quickly through money, then the graduates of our colleges go into finance rather than the professions, into distribution rather than production. The urge of profit is clearly toward the overstaffing and overloading with cost of the functions of finance and distribution. A few years ago in a Western technical college, maintained at public expense for the improvement of productive enterprise, 75 per cent of the graduating class was found to be going into nonproductive enterprise. In a similar institution in the East a thoughtful student recently said: "Where does the state come out? It pays good money to get better farmers and improved farming. Then we are told in the economics classes that the business man turns over his money for a profit several times a year whereas the farmer usually can do it but once. So most of our seniors say "me for the city where the money is." Moreover, those who want to farm are usually blocked by inability to get capital. In this constant withdrawal of energies from productive labor is the great sabotage of profit enterprises. Under its dominion basic production languishes, while for a time salesmanship and production of nonessentials flourishes. Ford can make more cars and the tobacco men more cigarettes but the farmers must stop growing wheat and apples. Thus is our chance to escape the decay of former city civilizations by the discovery of scientific agriculture imperilled by the maldistribution of energies under the stimulus of profit.

Profit and Leadership

It is, however, urged in behalf of the profit motive that it develops the leadership for an industrial civilization by its selection of the economically fit. Indeed it may be said to be a method of getting the strong into the necessary places of power by the prospect of certain rewards. Again it will not do to take all the forces that play in the competitive process and call them the profit motive. Where the stimulus of profit operates alone, or where it dominates, what kind of leadership does it produce? Is the profiteer of war times or post-war suffering in Europe a lovely figure to be held up to the emulation of youth? Is the more refined and amiable type, the pattern of the graces and virtues in his own circle, who raises prices without a thought of the consumer or lowers wages or decrees unemployment without a qualm for the workers, a desirable leader for social organization? Because its nature

is the enlargement of self-interest the profit motive necessarily develops the anti-social qualities, it makes the strong man the plunderer instead of the defender of the weak. The perennial problem of human organization is what to do with the able and energetic. Shall they rule or serve? Democracy is supposed to have destroyed the idea of their divine right to rule but in so far as it gives place and sanctity to the profit motive it is fast resurrecting that ancient doctrine. To glorify profit and sanctify in property rights the results of its predatory forays into the common life is to encourage the strong man to be selfish. Thus is repeated the blunder of the monarchy by which the fighting man was transformed from a servant into a master and in course of time his descendants became parasitic mediocrities. Similarly, through inherited wealth, the taking of profit becomes finally the right of inability, and the foolish fiction of "shirtsleeves to shirtsleeves" is wiped out through the conservation of wealth by an army of paid retainers.

Profit and the Higher Values

The question of the efficiency of the profit motive must finally be carried to a higher court, where matters of wider bearing are considered. The final issue is, what are its effects upon those values which men have commonly agreed to be ultimate. Love of truth and love of fellows are the two highest qualities of man, says a modern philosopher. How much are these qualities stimulated by the anticipation of gaining an advantage over others or getting something for nothing? How do they grow in a community where these stimuli prevail? How are they prized by the most eager seekers after profit who should, according to its gospel, be thereby our best social servants?

These questions cannot be dismissed as belonging to the field of morality rather than economics. There is no such antithesis. The attempted separation cannot be made—morality is finally what experience discovers to make for social well-being, and the economic process both determines and is determined by the general health and welfare of society. The relationship is interdependent. Without the increase of truth and fellowship, the growth of sympathy and confidence, the development of mutuality and the capacity for cooperation, neither society in general nor the economic process can improve or continue. It is therefore nonsense to say that whatever its moral defects, the profit motive will continue because

of its economic efficiency. To the degree that it is morally defective it will be economically inefficient.

The world of profit has developed its particular regard for truth and made its contribution to the stabilizing of human living through contract morality. But this depends upon prizing one's word above the possibility of gain or the certainty of loss. Wherever the desire for gain controls, honesty disappears, evasion and deceit enter. There are many times in a profit-seeking order when truth telling is not the best policy. In our post-war period of inflation trade journals were bewailing the rapid spread of the cancellation evil, so generally were those in danger of financial shipwreck attempting to save themselves by throwing overboard their signed agreements. The development of business ethics is not a consequence of the profit motive but a defense against it, and it can only be successfully held as the profit stimulus is modified by other considerations.

The inhibitions that the love of money puts around truth-seeking are too obvious to need more than mention. Nor are they compensated by any patronage of the arts and sciences by a few successful money makers, for only a minority of these will support the search for truth into the economic organization of society without which all other truth is finally vitiated. Not the direct influence of pecuniary gain upon the minds of individuals but its indirect effect upon the mental attitudes of the community is the most serious aspect of the situation. Here too it turns out cheap goods and nasty and makes them the standard. It constantly depreciates the currency of the mind. A supreme example is the book of an English multimillionaire owner of newspapers urging upon youth the development of the money making intellect as the crowning achievement of mental activity.[9]

The basic manifestation of love of truth is honesty of work. Here is where a man stands square with the physical universe and with his fellows, who provide him raw materials and cooperating labor. But to the degree that profit is something for nothing the anticipation of it is the negation of this fundamental ethic of work. Under its direct stimulus, men plan endless schemes to escape honest labor and cheat their fellows from loaded wheels at county fairs to crooked deals in high finance. Some of the English wage earners, demoralized by three years of living without working, by virtue of the public dole to the unemployed, have been spending their subsidy in

[9] Beaverbrook, *Success.*

betting on the races. They have been captured by the same profit spirit that dominates so many of their alleged betters.

It seems very immoral to the leisure class and the hard working financiers that the farmers should now in their turn seek to get something without working for it. That privilege is supposed to belong only to those who have long been removed from the necessity of productive toil. If the profit motive continues to corrupt those who have heretofore been kept honest by contact with the honesty of the soil and the willingness to work of other simple folk, the situation will be beyond hope.

Profit vs. Fellowship

The most serious consequences of the profit motive is what it does to human fellowship and the desire for it, for the continuity of society depends upon the increase of cooperative living. Because a part of the essential nature of profit is the securing of advantage over others the desire for it is a decisive force. All social groups have developed by way of subordinating individual desires to the common economic need. The profit motive subjects the common need to individual desires, even in time of war when the need for solidarity is most conscious. This is why a profit economy has no effective morale and can never get one. For the essential condition of morale is a common end and spirit, whereas profit means something different for various persons and groups. Under the profit method how can the farmers and the industrial workers be coordinated in a common purpose? And without that coordination how can civilization continue?

If the desire for profit tends to sunder persons and groups its realization separates them still further. All cannot get advantage, some are thereby put at a disadvantage. The result is the growth of suspicion, ill will, discontent and antagonism, which is one of the outstanding characteristics of our acquisitive society. How do the farmers feel toward the bankers and middlemen, the wage-workers toward the investors, the professional class toward both the others? In a world stimulated by the possibility of profit there is a continual abrasion of mutual confidence, an increasing loss of that faith between men by which alone humanity can live and grow. The final price of surrendering to the motivation of profit is that men come finally to doubt the possibility of human development, to deny their own capacities. What the

fact of profit does to fellowship, the idea of profit does to faith, which is the condition of fellowship.

The disintegrating tendency of the desire for advantage over others is as manifest as its divisiveness. It is anarchistic in its nature, continually leading men out beyond moral restraints. It breeds the lone wolf, and breaks down the law of the pack. More than once in the development of farmers' cooperative planting and selling agreements, all who signed the agreement to restrict acreage have gone home to break it by planting more, each thinking that thus he would get the advantage of the others.

A modern devotee of profit who looted the public in what is now illegal railroad finance and founded a theological seminary with the proceeds laid the foundation of his fortunes by filling a drove of cattle with water before weighing them for sale. That practice is now outlawed in most western states, but his successors in stock watering are still busy improving the gentle art of getting something for nothing faster than the law can proscribe their practices.

The divisive, disintegrating tendency of the search for profit is increased by the fact that it depends for progress upon the blind working out of the struggle for advantage between conflicting interests. It sets men and groups at cross-purposes and bids them trust Providence for the result. At the best it sends them off separately to pursue their own ends their own way and stubbornly believes that harmony will result fortuitously. It is thus anarchistic in the intellectual as in the moral realm. True to its essential nature of something for nothing it exalts gambler's luck into a social theory. Recently a trained economist declared his belief that better results could be secured automatically by the play of competitive profit-seeking forces than by any attempt at coordinating services to meet measured needs. This is a theory of progress by disorder. It is the assertion that things can be done better by chance than by knowledge, by guesses in the dark than by measurements. It is the claim that the best of all possible worlds is one in which the constant, daily activities are carried on without plan and in ignorance of the outcome, in which skill, income and ownership are distributed by a chaotic struggle instead of an ordered attempt to reach desired ends. When Woodrow Wilson officially ended such partially ordered economic activities as were necessary successfully to carry on this country's participation in the World War, he said it was time to take the blinders off of business. His metaphor was

reversed. In reality the blinders were put back on and the disbanded teams went plunging off without plan or vision in the traditional way and soon ran into disaster.

The only degree to which the profit motivation can control the disintegrating tendency of its enlargement of self-interest is by organizing companies of profit seekers in particular fields on the basis of sharing the loot. This, however, does but increase the divisive tendency of profit motivation, as the present warfare between organized business, organized labor, and organized farmers amply demonstrates. Nor has it prospect of permanence even in its own narrow field. Armies organized on the prospect of plunder are notoriously unstable. Honor among thieves is a fragile virtue, and getting something for nothing in a crowded world is progressively being demonstrated to be robbery. Therefore, the more efficient the profit motive becomes the more does it disintegrate the social fabric. Therefore, every attempt to increase fellowship and develop cooperative living seeks to some degree to restrict profit, either indirectly by social welfare work or taxation or directly by profit sharing and lowering of price, or else it seeks to eliminate the profit motive by organizing industry for use.

The Indictment Against the Profit Motive

This, then, is the way the profit motive works where it works alone. These are its consequences when it operates directly so that they can be plainly seen. In the field of production it weakens the human instruments, wastes the natural resources, lessens quality and continually incites sabotage as it wears down the will to work through its endeavor to get more labor for less. In the field of distribution it is the blind leading the blind in a clumsy, ignorant device that allots abilities and capital constantly to unnecessary and harmful activities and magnifies inequality, thus increasing discontent and the sundering of the social fabric. In the field of consumption it promotes scarcity, sometimes of deliberate intent, but mostly by the ignorant workings of its greed. In the wider area of social living it diffuses and sanctions in subtle ways the idea and practice of getting something for nothing and living at the cost of others, thus destroying the vital spirit of human progress which is mutual service and fellowship. That it does not carry these tendencies to overwhelming disaster is only because it is continually restrained by social control, and because even under industry for profit the integrating stimuli of workmanship and group loyalty still operate to modify its

workings. The failure to analyze the working of these other forces is the intellectual sin that lies at the door of orthodox economics and is responsible for the popular belief in the efficacy of the profit motive. Yet it is manifest that these forces have to be called on to do the difficult things that the desire for gain is impotent to accomplish—to fight the wars that it has caused; to feed, and clothe and house the people who have produced the goods that it cannot use; to rescue the truth and beauty and friendship it has endangered; to provide the self-sacrifice of the few for the many which is the final guarantee of progress, for the only sacrifice which the profit motive knows is the offering of the many to the few upon the altars of its greed.

At two points only is there evidence that the profit motive has contributed to economic development. It has stimulated increase of production and improvements in the process. But these by confession were only by-products of profit and the more skilful any enterprise becomes in extracting profit, the less by-product there is. It is not mentioned at all in the reports of corporations to stockholders. They speak only of the primary product—dividends. In both these matters also the incentive of gain has been mixed with other powerful motives[10]—the urge to activity regardless of ends and the passion for improvement for its own sake. Also in both these fields its activity grows less with age and it becomes self-defeating. The people from whom it has taken its profit cannot buy the increased goods it has learned to produce and the debts that it piles upon productive enterprise are an additional brake as on western agriculture at the present moment. In like manner it tends to limit the use of the technical improvements it has helped to put at the service of man, as in the field of public utilities, especially the telephone and urban transportation, where the desire and capacity for service to the public is increasingly limited by the necessity of meeting the demands of capitalization for profit. Whatever financial inducement there was in bringing out inventions and improvements becomes transformed in time into a vested interest in preventing improvements. The business world is full of incidents of the refusal and even suppression of inventions that would interfere with present profits. Obviously this tendency must grow with the increased capitalization for profit of exist-

[10] This is even more true regarding quality of goods. The only place where pure profit accrues most by the improvement of quality is in the limited field of luxury goods for consumers of large income and discriminating taste.

ing plant. The older the profit system grows, the stronger will be the set of the profit motivation against improvements. The power machine could lighten the burdens of life much more for all of us were it not for the profit charges piled upon it.

The relation of the profit motive to progress is the core of the case concerning its efficiency. This issue cannot be decided by measuring general tendencies in industry under the profit method. That complicated undertaking is not necessary for this purpose. All that needs to be done is to see what are the direct effects of the profit stimulus. If these are away from economic efficiency then it needs to be eliminated unless we are to be content with stagnation or decay. We can stand imperfection in a process if it contains within itself the force for improvement as does the democratic method. But the final inefficiency of the profit motive is that it can neither reform itself nor cooperate with others in that process. At first competition was to be its regulator, but by its own nature it continually removes competition. Then it was to be regulated by law, but after numerous attempts in the case of railroads and other public utilities we are almost unanimously told by its exponents that when it is regulated it will not work. It is then, like war and slavery, something that cannot be regulated or reformed. To say that we do not like profit seeking but cannot get along without the profit motive is like saying we do not like killing but cannot get along without war.

The profit seekers can no more reform profit than the militarists can reform war. Neither in church or state is the dead hand of vested interest quite so powerful as in profit-seeking industry. It is today spending large portions of its profit in propaganda to keep us from finding out the truth in its own field; as, for instance, its propaganda that misrepresents what is happening in the public and semi-public operation of public utilities, the most notorious recent example being the propaganda concerning the Ontario Hydro-electric development.[11] It is doing the same thing in both church and state. Who paid for the lies about Russia? Who is paying for the virulent, obscurantist propaganda in the religious world? Increasingly the profit motive appears as the chief opponent of progress. Its final condemnation is that it increasingly operates to prevent

[11] See W. S. Murray, *Government Owned and Controlled Compared with Privately Owned and Regulated Electric Utilities in Canada and the United States* (published by the National Electric Light Association), and *Refutation of Unjust Statements*, contained in a report published by the National Electric Light Association respecting the Hydro-electric Power Commission of Ontario. Toronto, 1922.

us from finding out a better way of doing things, to depreciate and discredit the qualities of kindness and generosity by whose exercise alone life can go forward.

The outcome of the matter, then, is that at every point the profit motive makes for inefficiency both in the economic process and in the wider field of social living. The idea of its efficiency is an illusion created by the increase of goods and comforts due to the machine. To persist in this view in face of the evidence of what the stimulus of the anticipation of profit actually contributes to the complex bundle of industrial activities is like insisting today that the earth is flat. It is clinging to traditional dogma regardless of fact, it is the exercise of blind faith instead of scientific measurements.

CHAPTER III.

IS THE PROFIT MOTIVE INDISPENSABLE?

MOST intelligent people who stop to look at what is happening to industry for profit and to reflect upon the inadequacies of life in the acquisitive society compared with the possibilities of a machine age will concede the ineffectiveness of profit motivation. They will add, however, that this is unfortunate but inevitable because human nature is made that way. They will insist that the stimulus of pecuniary gain is indispensable because human beings are naturally lazy and greedy. This is the assertion of the doctrine of total depravity in the economic field, and that without remedy. It is one of the wonders of the modern world that men of scientific training who indignantly reject the dogma of the Fall of Man will yet locate him among the swine and insist that he never can get up from among them. Thus the argument for the profit motive comes full circle. It first asks us to accept a degrading view of life for the sake of economic efficiency and finally requires us to tolerate an inefficient economic process on the ground of a debasing concept of human nature. It is indeed a counsel of despair.

Human Nature Is Not Static

Such counsels, however, usually prove to be the product of lack of knowledge and if the profit theory of human nature has behind it as little evidence and as much assumption as the profit claim of efficiency there may yet be hope for the future of man. This part of the case has to be referred to the judgment of psychology, a science which was scarcely born when our present traditional economic view of man was formed under the influence of the utilitarian philosophy. It is only recently that psychology has begun seriously to ask what is human nature but it is positive on the main point at issue. It is absolutely sure that human nature is not static. It is something in process. The dominant emphasis of the later psychology is upon the plasticity of human nature.[12] It no longer catalogues fixed instincts but, instead, describes the tendencies of original nature and, studying their behaviour, dis-

[12] Dewey, *Human Conduct;* Hocking, *Human Nature and Its Remaking; et al.*

covers that what form they take, even in infancy, and what they later become is determined by the social environment to which they respond, by the training it gives and the approval it bestows, including the way it develops the capacity to change this environment by reforming it or rebelling against it. A dog of the same breed may become a defender or a killer of sheep according to his training and situation. The same type of man may in like manner become a profiteer, the manager of a cooperative or a technician in the service of a public enterprise. Just as the kind of man who in other days would have been an absolute monarch with unlimited power of taxation may now become a president with limited power and fixed income, so the sort of person who was at one time a robber baron, and is today a predatory financier, may in the future be the hired servant of the commonwealth to develop its new and adventurous undertakings.

At another vital point does the newer psychology with its observations of human behaviour relegate the profit theory of human nature to the region of assumption. That view rests upon what is called sensational psychology which proceeds on the basis that life is a response of the senses to stimuli. Thus we get the assertion of the predominant power of money. It is now seen that this is altogether too crude a reading of what man is and does. It neglects other stimuli and responses. Man is capable of anticipating distant ends and shaping conduct thereto even at the expense of immediate sensations. A little knowledge of social living will show that this is what he has always done, in the discipline, for example, of the religious communities and military states, of the trade unions in time of strike, or of the Communists in Russia. Where money and immediate sensuous satisfactions move men more powerfully than other stimuli, it is because life has been organized to that end. What the profit philosophy of life has done is to encourage a form of economic organization that unduly stimulates the self-seeking and pleasure-loving tendencies in human nature and then, looking upon the results, to say: "Here is proof that humanity can never be any better. See what concessions we must make to original sin!"

What Men Want

Men want certain things, particularly freedom, social prestige and power. These may be realized in social or unsocial form. It is the weakness of a commercial society that it makes them procurable mostly by way of profit which has de-

structive consequences. Under these circumstances the desire for freedom leads to the anarchistic activities of big business and the purposeless leisure of its beneficiaries. The urge for social prestige produces the parasitic stratum of luxury with its "conspicuous waste." The yearning for power produces the dictatorship of the plutocracy. Yet these desires can be satisfied through economic activity without such damage. The history of the professions indicates that if the service values of economic functions are developed, those who perform them will acquire social prestige on the basis of the service they render instead of the money they spend. The more technical economic enterprise becomes, the more it moves in this direction. The story of political democracy shows that the desire for freedom and the love of power can be beneficially satisfied by general participation in the control of affairs and the multiplication of opportunities for leadership. What was done with kingship must presently be accomplished with plutocracy. The democratization and decentralization of economic control, like the corresponding process in the political world, will provide a constructive outlet for desires that are now satisfied by way of profit with disastrous consequences. Let men agree to seek cooperative living in their economic activities as they have done in other aspects of life and the capacities that have therein been developed stand ready to discover the necessary ways to be had. Let economic goods be sought as common needs for all in ordered ways adapted to this common end and economic life will develop both morale and morals.

The Profit View a Dogma

In reality the profit view of the nature of man rests not so much upon observation of how persons and groups behave as upon a doctrine. This is the belief that man is moved only or at least most powerfully by self-interest. Recognizing the evidence for the inefficiency of the profit motive, honest and consistent believers in the doctrine of progress by way of self-interest are led to deny the possibility of progress at all. This is one of the main causes of our prevalent cynicism. To escape from irrefutable facts men pass from credulity to skepticism.

There is no excuse today for ignorance concerning the place of mutuality in the development of species and the evolution of human society.[13] The individual lives for the species, the

[13] Kropotkin, *Mutual Aid;* Nasmyth, *Social Progress and the Darwinian Theory.*

species for the individual. The person lives by and for and in the group, the group lives in and by and for the individual person. The problem has ever been to maintain reciprocity between them so that self-interest and the common weal shall be inseparately welded, neither realizable save by the realization of the other. Thus the group has to be prevented from suppressing the individual with its customs, conventions and laws, and the individual has to be kept from destroying the group with his self-will. When there is this equilibrium of reciprocal relationship then there can be some movement forward for all. The nearer the approach to mutual exchange of labor and sharing of life the more the progress. The enlargement of self-interest is the generation of friction, the loss of equilibrium, that makes motion difficult or impossible. Thus instead of the inequality which is the result of successful profit motivation being a cause of progress as traditional theory alleges it is its hindrance and negation. Times of exploitation and injustice are times of wasting conflict.

Mutual Aid and Progress

In the increasing capacity for cooperative activity and mutual living lies the fact of human progress as the leading English sociologist has clearly shown.[14] That we have any growth at all in social organization, any development at all in social living is due to our increasing consciousness that life cannot get forward by way of seeking self-interest in the form of advantage over others but only by pursuing it in terms of the common weal. Thus the member of a cooperative society gets more for himself by seeing his need as a common end and meeting it as a mutual activity. We can trust the common interest to the point of sacrificing ourselves for it if need be, because the self is the product of the group and is realized in and through it. But self-interest must continually be curbed from seeking its own advantage falsely, for the common good can never be realized by enlarging the special interest of the part. Hence the successful making of profit has never been able to give us a satisfactory distribution of income or property. Self-interest in the form of getting something for nothing at the expense of others can move us only toward disaster.

The strength of this kind of self-interest under the stimulus of our acquisitive society is indeed discouraging but it is not final or conclusive. The sociologists locate an age of barbarism

[14] Hobhouse, *Social Development.*

in between the more mutual living of simple savages and the dawning of civilization. It was a period of predatory activity of organized bands of barbarians, each seeking to live at the expense of others. There is a rough parallel in the economic history of the western world. The later Middle Ages was a period of simple, but ordered, group activity, with but little exploitation—save of the agricultural serfs. Then came the enlargement of trade and the predatory practice of taking a profit from both producer and consumer. This was transformed and enlarged by industrialism into the more or less organized warfare of economic groups seeking profit at the expense of each other, with finance managing to make it from all of them in turn. It is another barbarian period. But it represents no fixed and unchangeable kind of human nature, no inevitable self-interest. Out of it mankind can pass as it passed out of the stage of hordes of barbarians. Groups are learning slowly to act for common ends and to merge their self-interest in the common weal in the world of trade, banking, labor and agriculture, as previously the predatory tribes learned to merge themselves into nations, and separate states grew into commonwealths, and sects into religious federations. Where is the insuperable obstacle to carrying over this experience and its tendencies of behaviour into the economic field? There may not be, as some sociologists think, a social life force in the shape of an urge for cohesion, but there is demonstrably a capacity for discipline and growth in mutual living.

This ground for hope that self-interest can increasingly be socialized is enlarged by what we have recently come to know about the response of individuals to social environment and their dependence upon social improvement. Motives are not forces originating mysteriously within persons, they are responses to social situations, which also have power creatively to affect the social environment and the motives of others. Human nature acts mostly as its group wants it to act and as the environment makes possible. Men now respond to other incentives than profit in the professions because different ways of doing things have developed a discipline and a tradition. If we can develop better ways of getting economic goods and services than profit, the profit motive will gradually disappear from economic pursuits as it has practically disappeared from soldiering and teaching and the organization of religion and is disappearing from governing. Those who have been bred and trained in the cooperatives of Europe

do not think now in terms of profit. The Guildsmen of the Middle Ages would have been shocked by the bald statement of our easy-money philosophy. Russian Communists who have really deprived themselves in the attempt to develop the consciousness of a common end in economic activities cannot be moved by any appeal to monetary self-interest any more than the religious enthusiast. Tell an Esquimaux, whose tribal tradition is that the man who has two canoes is obligated to let the man needing food take one of them, that he ought to rent it for profit and he will consider you either crazy or criminal—which is exactly the verdict of our profit seekers upon those who propose another way of doing things.

Social Approval

The most powerful and constant force affecting the conduct of individuals is social approval. Few people are capable of refraining from observing conventions, let alone positively defying them. The profit motive form of self-interest appears indispensable today only because money making has become a social habit and is generally approved. Once raiding the villages of others stood in the same position as a means of livelihood and a way to glory. Few men today have the hardihood to make money by ways that have become disreputable but were once highly respectable, like highway robbery or trading in human beings or usury or "blue sky" financing. The pursuit of profit in the form of advantage over others is no more a necessary activity of human beings than head hunting or cannibalism. Its elimination is merely a question of finding other ways to meet economic needs and of putting social approval upon them.

Even a cursory view of actual human behavior makes it apparent that the interpretation of human nature in terms of self-interest, the view that man is moved always by his advantage, regardless of the welfare of others, is as much of an unreality as its parent conception of human nature, as something fixed and finished. There is no more evidence in economics than in theology for a cast-iron humanity. It is a myth like the Sun God and capable of infinitely more damage, since it is perennially placed by privilege across the path of progress. That it should be seriously used in circles that are supposed to be scientific to bolster up the illusion of the efficiency of the profit motive is one of the marvels of our time.

When, however, the mythical nature of the profit motive hypothesis of human nature is understood, and the illusion of

its economic efficiency has been revealed, there remains one last refuge of unreality for the faithful worshippers of the God of Things as They Are. This is the belief that despite its imperfections the profit motive is indispensable because nothing else will work as well. Usually this is nothing more than the blind holding on to the status quo. It has been said about slavery and monarchy, about horsepower and steam power. It has been flung against every proposed improvement in human living from the tools of the stone age to the extension of wireless telephony, and despite the fact that all progress has been made by doing the things which have been declared impossible this hoary slogan of reaction still has vitality enough to bar the road forward.

The Argument from History

When this ancient futility is used in support of the profit motive by those who claim to be educated, it is usually accompanied by the assertion that all the possible alternatives have been tried and found worse. Then come vague assertions about supposed communist experiments in ancient history, in South America or Russia. For good measure there are often added elaborate arguments about state socialism or communism. Here again is the unreality that comes from viewing life in fixed forms and patterns, of reading it in simple and opposing categories. In reality there is no question of comparing or alternating rigid systems of economic organization. Under the profit system other incentives than profit are at work and in any attempts to develop a different system many of the ways and attitudes developed under it will and must continue. The only sound discussion of alternatives is on the general basis of method. In the nature of the case the alternative to the profit way of getting the work of the world done has never been tried, for it has never been available until now. It is the scientific method of measuring needs and coordinating services to meet them. It is industry for use instead of for profit. It cannot be considered as a fixed alternative system for, by its nature, it will be experimentally worked out and will mean different ways of doing different things, cooperative societies for this, municipal ownership for that, state administration of these functions and syndicalist control of others. It appeals to different tendencies in man than does the profit method and at least has a better chance of success because it selects these which have historically demonstrated themselves as making for solidarity and con-

tinuity while the profit method stimulates those which have proven disintegrating and destructive in one civilization after another.

Incentives in Industry

These incentives are now actually operating within industry for profit in so far as it will let them and are preventing the stimulus of financial gain from working out its full bent and developing its most disastrous consequences. In the professions, in government, in the life and labor of the home as well as in the basic vocation of agriculture, men and women are constantly and powerfully moved to activity by other motives than the desire for profit. Among the farmers pondering over the spreading insolvency of their calling and the exodus from countryside to city one frequently hears the query: "But who will feed the world?"

There is a large and increasing area within the profit system where the profit motive does not work, where, indeed, it cannot work. There cannot be profit for all. Its appeal is to those of more ambition and energy than the crowd. This fact was hidden from the crowd as long as our natural resources made it possible for more people to have the chance of prizes in the financial lottery than was possible in Europe with its more circumscribed circumstances. But now our popular belief that any boy might become a millionaire is fast being placed alongside its kindred myth that any boy might become President. The increasingly concentrated ownership of our resources and opportunities makes it certain that fewer and fewer persons can pass from the ranks of those who live by labor to the ranks of those who live by profit. The expansion of corporations increases the number of salaried workers and decreases the number of small owners, in farming and merchandising and banking, as well as in manufacturing and transportation. More and more our population becomes a standardized work army, each section operating within certain definite levels of income. More and more the salaried technician replaces the profit-seeking entrepreneur and makes profit for others, not for himself. By what incentives, then, is this army of standardized workers moved? Many are moved only to discontent and inefficiency by a sense of deception and injustice as they find there is no profit in sight for them or their children. Some are galvanized into temporary activity by being given a share in the profit. The vast number who, with no hope of profit, still labor faithfully and efficiently

are moved by incentives which are older than the profit motive and which will outlast and replace it if industrialism is to continue—the pride of workmanship and loyalty to their fellows.[15] These carry forward the great bulk of the work of the world in habitual attitudes and activities.

These incentives having been repressed by the riot of profit in early industrialism are now being called into play to save the situation. One of the largest booksellers in the country spends much money trying to get people to read what he thinks are good books, announcing proudly that he is in business not to make money but to spread the habit of reading. The spread of science in the business world is bound to diminish the circuitous process of getting goods and services by way of money-making, for science is the best way of doing things as well as the best way of knowing things. Large corporations now appeal to their army of employes for loyalty to the organization as the basis of efficient operation. Soon we shall extend the practice to the larger group. A current advertisement reads, "Firm in its conviction that the greater the service, the greater the profit, the Standard Oil Company (Indiana) looks to service as its chief concern." This is woeful ethical confusion, but it is a long way from "the public be damned" of not many years since and it may be on the road toward service for its own sake.

Nonprofit Enterprises

It is, of course, in nonprofit enterprises that the incentives which replace the profit stimulus are clearly and wholeheartedly working and these enterprises are on the increase. The world will not soon forget what it got without price or profit from the laboratories of Steinmetz, the Curies and the discoverers of insulin. It will look in vain for any such common gains from the seekers after the net surplus. When those in control of our war-time economic activities wanted extra effort they appealed not to love of money but to love of country and humanity, they told us we must rise above the level of commercialism to the plane of patriotism. Then they standardized activities and eliminated the waste and confusion of blind, chaotic profit-seeking enterprise in so far as they were not blocked by the profit-makers. Through the clouds of propaganda devised to prevent an understanding of what really happened and despite the sabotage of the profiteers it is gradually coming to light that the ordered ways of the days

[15] Veblen, *The Instinct for Workmanship.* Marot, *The Creative Impulse in Industry.*

of war were much more efficient than "business as usual" to which we so gleefully returned when the emergency was past.[16] What inefficiency there was in the public business of wartime must be charged, as in the government business of peace time, as much to the waste and graft of profit seeking as to any other factor. One of the Machiavellian achievements of the profit method has been to corrupt government by making it jobs for profit, transforming it from public service to public plunder, and then to point to the result as evidence of the inherent unfitness of the public to run its own business.

Cooperative Societies

One of the most striking phenomena in modern Europe has been the growth and success of the cooperative societies. Here is nonprofit economic enterprise of vast proportion and high efficiency. The cooperatives constitute the one form of economic organization that has come through war and revolution with increased strength. They saved Russia from economic disaster during the war, the Communists have been unable either to suppress or control them, and they are now doing a large share of the business of the country.[17] It is likewise admitted by those who take the trouble to get and weigh the facts that in recent years government enterprise for the public benefit, both in municipal undertakings and in national services, has increased in amount and in efficiency to the degree that it has been scientifically conducted for use and not politically operated for profit.[18]

[16] Salter, *Allied Shipping Control;* Chiozza, *Money: The Triumph of Nationalization;* Laidler, *Public Ownership Here and Abroad* (L. J. D. Series), Ch. II.

[17] Warbasse, *Cooperative Democracy;* S. and B. Webb, *The Consumers Cooperative Movement;* Gide, *Consumers Cooperation.*

[18] Laidler, *Public Ownership Here and Abroad.*

CHAPTER IV

THE WAY OUT

THIS experimental development of nonprofit enterprise is the only way to dispel the illusion of the efficiency of the profit motive and to explode the myth of its indispensability. It is also the only possible reply to the simian chatter that diverts attention from the menacing weaknesses of our jerry-built economic structure by demanding proof that what is yet to be is better than what is. In these undertakings the thing that most persons of light and leading, as is their custom, say cannot be done, is already being accomplished. What has been hidden from the wise and prudent is being revealed to the simple who are willing to make the effort necessary for its discovery. Thereby the method that is better than profit is being worked out and the incentives that it brings into play are being cultivated and strengthened. As the workings of these forms of industry for use get known and understood they will receive social approval, their stimulation of the incentives of pride of workmanship and loyalty will thereby spread beyond their circles and the power of the profit motive will be correspondingly diminished.

Three Hopeful Forces

Three forces are operating to extend economic enterprises without profit: the moral revulsion against the profit motive, the increasing knowledge of its intolerable economic consequences, and the pressure of the scientific spirit for a better way of doing things. The type of thinking and activity that has produced the smooth-running dynamo cannot long endure the sloppy disorganization of business for profit which cannot get fuel to a powerhouse without waste of coal below and human life above the ground, which cannot distribute its benefits without increasing inequality, discontent and conflict. Science is compelled by its own nature to seek an economic order in which the production and distribution of goods is intelligently adapted to approved needs and not left at the mercy of blindly conflicting impulses. The scientific method inevitably removes the necessity for profit and the justification of the profit motive by supplying the knowledge that reduces and eliminates risk. The social and moral consequences

of profit are not due to the malevolence of men so much as to the fact that the device of speculative profit was the only way of operating in situations where the factors and results were unknown. But today we can assess raw materials, manufacturing ability, consumption needs and distribution capacities in all our largest industries. The development of cost accounting alone has made it possible to eliminate speculative profit from many enterprises.

Just now a firm of horticulturalists wants me to order my bulbs for next spring. They ask for my business because they have been bred and trained to know and love this work and because by getting orders in advance they can buy in Holland without risk and thereby lessen cost. They are not operating on a profit basis or by the profit motive. Cooperative societies can function successfully because they have a definitely known minimum market and can thereby eliminate the largest factor of risk in merchandising. For the same reason nonprofit operation is possible in municipal and national utilities and in the big, basic, routine industries.

The conclusion of the matter is that when the defenders and advocates of the profit motive assert that it must be kept because there is no alternative that will work as well they are adding a dogma to an illusion and a myth. This is a remarkable trinity to be offered at this stage of human development as an explanation and limitation of economic procedure. Yet if they are truth and fact the case is still more remarkable. If the chance of profit is the best method for distributing economic goods and services, if the possibility of getting something for nothing is the most powerful prospect for humanity, if no workable alternatives appear, then we are living in a universe in which efficiency comes by keeping ignorance inviolate, where laziness and greed, the basic immoralities of life, are its strongest forces, and where nothing can be done about it. Such a view of life is defeatism on the grand scale. It is the suicide of the spirit, the annihilation of progress. That it could have standing for a moment among people who are both lovers of truth and of their fellows is the final proof of the destructive nature of the profit motive. The only explanation of the defense of the ignorance and greed which lie at the heart of the profit motivation by those who are both intelligent and unselfish is that this view of economic activity is the rationalization of their own desire for comfort, of their fear of losing by change what has come to them in the way of advantage under industry for profit.

Fortunately, however, man always refuses to stay in bondage when the process becomes visible. The spirit of freedom emerges triumphant in the capacity to evolve better ways of living. As it happened in the matter of slavery so is it happening now in the gradual transfer of industry for profit into industry for use. Whether this can be done without irreparable damage through destructive conflict and, if so, how long it will take, depends largely upon whether the truth concerning the inefficiency of profit and the workings of non-profit enterprises can be scattered abroad among the people. This part of the undertaking is the peculiar responsibility of those who are the beneficiaries and administrators of the intellectual capital of the community. Are our trained minds going to set themselves to the analysis and measurements of economic forces and needs that are necessary for the furtherance of the methods that will release us from the debasing effects of the profit motive upon the human spirit?

Knowing and Doing

To remain aloof from the knowledge of the working world and maintain a blind belief in traditional dogma is as intellectually disreputable in the field of economics as it is in the domain of religion. To be free from dogma but merely to wonder whether it is possible for society to develop incentives that will get man more and better goods and services directly by the scientific method than he gets indirectly by the haphazard method of profit is to be as tolerant and as futile as mere skepticism always is. There is one way to discover and develop a better motivation than that of profit and it is to do things by a different method. This requires that those who know the approach to a different method should proceed to follow it and encourage their children so to do at whatever diminution of comfort and social standing. Release from the inhibitions and repressions of dogma comes not in agnosticism but through scientific faith, that is grounded in reason and developed in experiment, that proves itself in the laboratory of its works. This is the condition of creative activity and the essence of it in this matter of profit motivation is the belief that it is better to fail trying to live intelligently and in fellowship as developing human beings than to stagnate comfortably in the muck or to rend each other over the booty of the earth like a pack of hungry wolves.